

Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 NEA-10 IO-14 ISO-00 SAJ-01 AEC-11

AID-20 CEA-02 CIAE-00 CIEP-02 COME-00 DODE-00 EB-11

FEA-02 FPC-01 H-03 INR-10 INT-08 L-03 NSAE-00 NSC-10

OMB-01 PM-07 RSC-01 SAM-01 SCI-06 SPC-03 SS-20 STR-08

TRSE-00 PA-04 PRS-01 USIA-15 DRC-01 AF-10 /226 W

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R 010700Z MAR 74

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 9778

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY MOSCOW

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

USLO PEKING

USMISSION GENEVA

USMISSION NATO

USMISSION USUN

CINCPAC HONOLULU HI

USINT CAIRO UNN

AMEMBASSY JIDDA UNN

AMEMBASSY KUWAIT UNN

AMEMBASSY NEW DELHI UNN

AMEMBASSY TEHRAN UNN

C O N F I D E N T I A L SECTION 1 OF 2 HONG KONG 2291

CINCPAC FOR POLAD

E.O. 11652: GDS

TAGS: PFOR CH

SUBJ: CHINA AND ENERGY

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SUMMARY : AFTER INITIAL "UNCERTAINTY, CHINA HAS NOW MADE CLEAR ITS ENDORSEMENT OF THE SHARP RISE IN CRUDE OIL PRICES. ALTHOUGH THE CHINESE APPEAR TO RECOGNIZE THE COMPLEXITY OF THE PROBLEM , THE APPARENTLY BELIEVE THAT FUNDAMENTAL STRATEGIC AND ECONOMIC ADVANTAGES FOR THEMSELVES ARE LIKELY TO EMERGE FROM THE HIGH LEVEL OF PETROLEUM PRICES. PEKING PROBABLY FORESEES AND WELCOMES THE EMERGENCE OF A STRONG ARAB OR MOSLEM BLOC, THE DIFFUSION OF MONETARY POWER, THE SHIFT OF SOME DEVELOPMENT FUNDING TO OAPEC, AND A SLOW DOWN IN THE GROWTH RATE OF THE INDUSTRIALIZED COUNTRIES. AT THE FORTHCOMING SPECIAL SESSION OF THE UNGA, CHINA IS LIKELY TO BE AMONG THE OUTSPOKEN CHAMPIONS OF THE OAPEC COUNTRIES. THE RECORD SUGGESTS THAT THE U.S. SHOULD EXPECT LITTLE SYMPATHY AND NO CO-OPERATION FROM CHINA IN ITS EFFORTS TO CONSTRUCT A MULTILATERAL APPROACH TO THE ENERGY CRISIS. END SUMMARY.

1. AFTER THE ARAB PRODUCERS FIRST DECIDED TO USE THEIR OIL AS A WEAPON IN THE MIDDLE EAST CONFLICT, PEKING HAILED THIS POLICY AS AN "EFFECTIVE" WEAPON IN THE STRUGGLE OF THE ARAB PEOPLES AND A "HEAVY BLOW TO THE U.S." AS THE STRATEGIC IMPLICATIONS OF A CRIPPLED WESTERN EUROPE AND JAPAN BECAME MORE EVIDENT, PEKING APPEARED TO REASSESS THE IMPLICATIONS OF THE ARAB POLICIES. IT DROPPED ALL PUBLIC SUPPORT FOR THE BOYCOTT AND REPORTED APPROVINGLY INDICATION OF AN EASING OF THE EMBARGO. IN PRIVATE, CHINESE REPRESENTATIVES MADE THEIR GOVERNMENT'S DISAPPROVAL OF THE ARAB EMBARGO FAIRLY EXPLICIT. AS THE SITUATION AGAIN CHANGED WITH THE MID-DECEMBER OAPEC DECISION TO EASE THE CONTRACTION OF OIL SUPPLIES, PEKING RENEWED ITS PROPAGANDA REFERENCES SUPPORTING THE ARAB'S RIGHT TO USE OIL TO FORCE CHANGES IN U.S. AND ISRAELI POLICIES. WITH THE THREAT OF IMMINENT ECONOMIC DISASTER FOR EUROPE AND JAPAN EASED, PEKING APPARENTLY FELT IT COULD RETURN TO THE POLICY OF SUPPORTING THE ARAB ACTION AGAINST THE U.S. MOST RECENTLY CHOU EN-LAI IMPLIED SUPPORT FOR THE MANIPULATION OF OIL SUPPLIES AS A POLITICAL INSTRUMENT WHEN HE SAID THAT THE ARABS HAD THE RIGHT TO USE "ALL POSSIBLE WEAPONS" IN THE STRUGGLE WITH ZIONISM.

2. THE STEEP RISE IN CRUDE OIL PRICES IN DECEMBER, HOWEVER,
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INVOLVED LONG-TERM PROBLEMS OF A DIFFERENT NATURE FROM THOSE RESULTING FROM THE TEMPORARY AND SELECTIVE EMBARGO. CHINESE OFFICIALS HAD EARLIER PRIVATELY WARNED OF THE DAMAGE WHICH RISING PETROLEUM PRICES WOULD CAUSE OTHER DEVELOPING COUNTRIES. ALSO AS INDICATED BY PEKING NEWS REPORTING , THE PRC WAS AWARE OF THE SERIOUS ECONOMIC PROBLEMS THAT WESTERN EUROPE AND JAPAN WOULD FACE IN MEETING THE GREATLY INFLATED CHARGES FOR PETROLEUM. FURTHERMORE, IT DID NOT APPEAR LIKELY THAT THE CHINESE

WOULD WELCOME THE WEAKENING OF THE EEC AND THE ATLANTIC ALLIANCE, DEVELOPMENTS WHICH SEEMED INHERENT IN THE EMERGING SCRAMBLE FOR OIL.

3. NEVERTHELESS, AFTER DUE CONSIDERATION, THE CHINESE HAVE RECENTLY MADE CLEAR THEIR ENDORSEMENT OF THE PRICE INCREASE. ON FEB 6, NCNA QUOTED PRESIDENT BOUMEDIENE'S STATEMENT THAT THE PRICE OF OIL WAS NOT TOO HIGH BUT RATHER THAT IT WAS THE COST OF TECHNICIANS, KNOWLEDGE, AND RESEARCH THAT WAS TOO DEAR. SHORTLY THEREAFTER VICE FOREIGN MINISTER CHIAO JUAN-HUA TOLD A WESTERN DIPLOMAT THAT CHINA HOPED THE ARAB OIL COUNTRIES WOULD MAINTAIN THE CURRENT HIGH PRICES.

4. IN RECENT ARTICLES ON THE ENERGY CRISIS, PEKING HAS EXONERATED THE PRICE INCREASE OF BLAME AND PINNED THE RESPONSIBILITY ON THE "EXPLOITATIVE" CHARACTER OF THE CAPITALIST SYSTEM, THE EXPANSION AND RIVALRY OF THE TWO SUPERPOWERS, AND THE MANIPULATIONS OF THE GIANT OIL COMPANIES. THE CHINESE HAVE ALSO ARGUED (MOST NOTABLY IN RED FLAG NO. 2) THAT THERE ARE ABUNDANT ENERGY RESOURCES AVAILABLE IN THE WORLD AND THAT THE APPEARANCE OF A SHORTAGE HAS BEEN CAUSED BY THE MONOPOLISTS' SEARCH FOR PROFITS AND THE WASTE INHERENT IN THE CAPITALIST SYSTEM. MOREOVER, THE CHINESE HAVE PORTRAYED UNSETTLED WORLD-WIDE CONDITIONS RESULTING FROM THE ENERGY CRISIS AS CONFIRMATION OF THEIR OWN "WELTANSCHUUNG" OF "GREAT DISORDER". MOST RECENTLY, PEKING ENDORSED THE FRENCH POSITION AT THE WASHINGTON ENERGY CONFERENCE AND ACCUSED THE U.S. OF ATTEMPTING TO USE THE CRISIS "TO REBUILD ITS HEGEMONY" IN EUROPE.

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INFO OCT-01 EUR-25 NEA-10 IO-14 ISO-00 SAJ-01 AEC-11

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OMB-01 PM-07 RSC-01 SAM-01 SCI-06 SPC-03 SS-20 STR-08

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TO SECSTATE WASHDC 9779
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AMEMBASSY ROME
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USMISSION USUN
CINCPAC HONOLULU HI
USINT CAIRO UNN
AMEMBASSY JIDDA UNN
AMEMBASSY KUWAIT UNN
AMEMBASSY NEW DELHI UNN
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5. BENEATH THE PROPAGANDA, THE CHINESE STILL SEEM TO APPRECIATE THE COMPLEXITY OF THE ENERGY CRISIS AND PROBABLY CONTINUE TO SEE CONFLICTS IN THEIR OWN INTERESTS. THEY ARE STILL CONFIDENTIAL

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CONCERNED THAT EVENTS COULD WEAKEN EUROPE, UNDERMINE THE UNITY OF THE EEC, OR DIVIDE NATO. THEY ALSO REMAIN WORRIED ABOUT AN ECONOMIC CATASTROPHE IN JAPAN WHICH COULD LEAD TO A RIGHTIST RESURGENCE. THEY WISH TO AVOID A SPLIT IN THE THIRD WORLD BETWEEN THE HAVE-OILS AND THE HAVE-NOTS. AND WHILE DEEPLY CONCERNED WITH THE EFFECT OF THE ENERGY CRISIS ON THE STRATEGIC CAPABILITY OF SOVIET ADVERSARIES, THEY DO NOT WISH TO SEE THE U.S. EXPLOITING THE SITUATION TO STRENGTHEN ITS INFLUENCE OVER WEST EUROPE AND "REBUILDING ITS HEGEMONY" OF THE 1950'S. (VICE FOREIGN MINISTER CHIAO KUAN-HUA RECENTLY EXPRESSED THIS THOUGHT TO ANOTHER WESTERN DIPLOMAT -HONG KONG 2026).

6. BUT WHILE THE PRESENT REGIME WOULD NOT ACTUALLY WELCOME THE "GREAT UPHEAVAL" TOUTED BY ITS PROPAGANDA, IT PROBABLY NOW SEES FUNDAMENTAL ADVANTAGES IN THE PRICE RISE. THE CHINESE WOULD CONSIDER THE EMERGENCE OF A STRONG (AND RICH) ARAB OR MOSLEM BLOC AS A WELCOME ADDITIVE TO THE PRESENT INTERNATIONAL MIXTURE OF POWER POLITICS. AT THE MINIMUM, IT WOULD REDUCE THE POSSIBILITY OF SOVIET DOMINANCE IN A STRATEGIC

AREA. PEKING PROBABLY ALSO SEES SUCH A BLOC AS EVENTUALLY PROVIDING AN ECONOMIC COUNTERWEIGHT TO BOTH SUPERPOWERS. THE PENDING SHIFT OF MONETARY RESERVES TO THE PETROLEUM EXPORTING COUNTRIES WILL TEND TO DIFFUSE MONETARY POWER AWAY FROM THE CAPITALIST WEST AND JAPAN- PRESUMABLY A WELCOME DEVELOPMENT FROM PEKING'S POINT OF VIEW. THE POSSIBILITY OF THE OAPEC COUNTRIES TAKING OVER PART OF THE TASK OF FUNDING ECONOMIC DEVELOPMENT IN THE THIRD WORLD IS ALSO VERY LIKELY GRATIFYING TO PEKING. ONE MAY ALSO ASSUME THAT A SLOW DOWN IN THE GROWTH RATE OF THE INDUSTRIALIZED COUNTRIES (IN PARTICULAR JAPAN) WOULD LIKEWISE BE SEEN AS A FAVORABLE DEVELOPMENT.

7. THE OVERALL CONSEQUENCE OF THE CRISIS FOR CHINA'S OWN ECONOMY ARE UNCLEAR AND DEPEND UPON MANY UNKNOWNNS SUCH AS THE EFFECT UPON THE PRC'S MAJOR TRADING PARTNERS. NEVERTHELESS, CHINA'S OWN SELF SUFFICIENCY IN PETROLEUM AND ITS INCREASING SURPLUS FOR EXPORT PROVIDES PEKING NOT ONLY A SENSE OF CONFIDENCE IN FACING THE ENERGY CRISIS BUT PROBABLY ALSO AN EXPECTATION THAT THE PRC WILL SUBSTANTIALLY PROFIT FROM IT.

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8. IN ANY EVENT, THE CHINESE APPEAR TO BE NEITHER WILLING NOR ABLE TO BRING PRESSURE ON OAPEC GOVERNMENTS TO MODIFY THE SHARP INCREASE IN THE COST OF OIL. PEKING SEEMS TO FEEL AT THIS TIME THAT THE RESULTANT "REORGANIZATION OF WORLD FORCES" WILL BE A LIMITED AND ON THE WHOLE PROBABLY A POSITIVE PROCESS. THUS AT THE FORTHCOMING SPECIAL SESSION OF THE UNGA WHICH IS TO DISCUSS RAW MATERIALS AND DEVELOPMENT , THE CHINESE WILL STRONGLY SIDE WITH EFFORTS TO GIVE GREATER CONTROL TO DEVELOPING COUNTRIES OVER THE PRICES OF THEIR RAW MATERIALS. CHINA WILL BE AMONG THE OUTSPOKEN CHAMPIONS OF THE OAPEC GOVERNMENTS. ON THE OIL ISSUE PEKING WILL PRESUMABLY FIND ITSELF ON THE SAME SIDE AS THE SOVIET UNION, BUT IN CHINESE STATEMENTS AT THE SESSION, MOSCOW WILL CONTINUE TO SHARE WITH WASHINGTON RESPONSIBILITY FOR THE CRISIS. THE RECORD SUGGESTS THAT THE U.S. SHOULD EXPECT LITTLE SYMPATHY AND NO CO-OPERATION FROM THE PRC IN ITS EFFORTS TO CONSTRUCT A MULTIALTERAL APPROACH TO THE ENERGY CRISIS.

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Decaption Date: 01 JAN 1960
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